

Message Text

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ACTION EB-08

INFO OCT-01 EA-10 IO-13 ISO-00 AID-05 CIAE-00 COME-00
FRB-03 INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02
OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 L-03
AGRE-00 /082 W

-----017878 220834Z /23

R 220756Z JUN 78
FM AMEMBASSY SEOUL
TO SECSTATE WASHDC 1820
INFO AMCONSUL HONG KONG
USMISSION GENEVA

C O N F I D E N T I A L SEOUL 5372

HONG KONG FOR REGFINATT; GENEVA FOR USDEL MTN

E.O. 11652: GDS
TAGS: EFIN ETRD IMF KS
SUBJ: 1978 IMF CONSULTATIONS IN KOREA, MAY 29-JUNE 9

SUMMARY: MAIN FALLOUT FROM THIS YEAR'S IMF CONSULTATIONS
IN KOREA IS LIKELY TO BE A LOW-KEY IMF RECOMMENDATION FOR
ACCELERATED IMPORT LIBERALIZATION. IN ADDITION, THE IMF
STANDBY CREDIT AGREEMENT WILL BE ALLOWED TO EXPIRE. END
SUMMARY.

1. AN IMF MISSION HEADED BY JOACHIM AHRENSDORF DEPARTED
SEOUL ON JUNE 9 FOLLOWING TWO WEEKS OF CONSULTATIONS WITH
THE ROKG.

2. ONE OUTCOME OF THE CONSULTATIONS WAS A MUTUAL DECISION
NOT REPEAT NOT TO RENEW THE IMF STANDBY CREDIT AGREEMENT
FOR CALENDAR YEAR 1978. THIS COMES AS NO SURPRISE SINCE
KOREA'S FAVORABLE BALANCE OF PAYMENTS SITUATION HAS
RENDERED THE CREDIT LARGELY SUPERFLUOUS. (IN FACT, AS
DEPT WILL RECALL, RENEWAL OF THE CREDIT LAST YEAR WAS
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ESSENTIALLY A SYMBOLIC GESTURE; NO DRAWDOWN WAS FORESEEN,
AND NONE MADE IN THE COURSE OF THE YEAR.)

3. MISSION'S SURVEY REPORT IS EXPECTED TO FOCUS ON
INFLATION AS KOREA'S NUMBER ONE ECONOMIC PROBLEM, AND
KEY RECOMMENDATION IN THIS REGARD WILL BE TO ACCELERATE
THE PACE OF IMPORT LIBERALIZATION. (COMMENT: IT IS

ACKNOWLEDGED THAT THE KOREANS ARE MOVING IN THE RIGHT DIRECTION BY EXPANDING THEIR PROJECTED 1978 CURRENT ACCOUNT DEFICIT TO \$300 MILLION; LOCAL IMF REP, HOWEVER, BELIEVES THAT A \$700-\$800 MILLION DEFICIT WOULD BE MORE APPROPRIATE.)

4. OTHER PROBLEM AREAS LIKELY TO BE IDENTIFIED IN SURVEY REPORT INCLUDE (A) KOREA'S AGRICULTURAL PRICE SUPPORT POLICY, WHICH IS INFLATIONARY, AND (B) THE DOMESTIC INTEREST RATE STRUCTURE. ALTHOUGH INTEREST RATES WERE RECENTLY INCREASED (IN LINE WITH, BUT NOT NECESSARILY IN RESPONSE TO, ONGOING IMF RECOMMENDATIONS), LOCAL IMF REP BELIEVES THEY SHOULD GO UP EVEN FURTHER TO MORE ACCURATELY REFLECT THE RETURN ON CAPITAL INVESTMENT IN KOREA, AND TO SOAK UP SOME OF THE SPECULATIVE FUNDS WHICH HAVE CONTRIBUTED TO INFLATION IN THE REAL ESTATE SECTOR.

5. GENERALLY, IT IS THE EMBASSY'S IMPRESSION THAT IMF REPORT WILL TAKE A RATHER LOW-KEY APPROACH, EITHER BECAUSE MOVEMENT IN THE RIGHT DIRECTION IS ALREADY TAKING PLACE (E.G. IMPORT LIBERALIZATION), OR BECAUSE OF A RELUCTANCE TO TREAD TOO HEAVILY ON INTERNAL MATTERS (E.G. INTEREST RATES AND AGRICULTURAL POLICY).
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CREDIT, AGREEMENT
Control Number: n/a
Copy: SINGLE
Draft Date: 22 jun 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978SEOUL05372
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780260-0237
Format: TEL
From: SEOUL
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780630/aaaaazut.tel
Line Count: 85
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: df89bf83-c288-dd11-92da-001cc4696bcc
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 17 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2245965
Secure: OPEN
Status: NATIVE
Subject: 1978 IMF CONSULTATIONS IN KOREA, MAY 29-JUNE 9 SUMMARY: MAIN FALLOUT FROM THIS YEAR'S IMF CONSULTATIONS IN KOREA IS LIKELY TO BE A LOW-KEY IMF RECOM MENDAT
TAGS: EFIN, ETRD, KS, IMF, (AHRENSDORF, JOACHIM)
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/df89bf83-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014